CMP United Business Media

INTERNETWEEK.com
TECHNOLOGY THAT CONNECTS THE ENTERPRISE

Part of the **TechWeb** Business Technology Network

| BREAKING NEWS | E-BUSINESS | APPLICATION DEVELOPMENT | SECURITY | OPEN SOURCE | ALL STORIES |

INTERNETWEEK.com
CONNECTING THE ENTERPRISE, CUSTOMERS & SUPPLIERS

February 18, 2002

Streamlining Direct Procurement

By Tom Smith

Plasti-Line Inc., a maker of signs for McDonald's, Pizza Hut and General Motors, by mid-June plans to go live with an automated direct procurement strategy that it says will significantly reduce its spending and slash its cost to process purchase orders.

The $150 million company, based in Knoxville, Tenn., currently uses a paper-based, error-prone system for purchasing direct materials including polycarbonate, sheet aluminum, structural steel and electrical components.

The company has committed to deploy supplier management software that it believes will take the cost of processing at least a quarter of those P.O.'s to zero, while also shaving 10% of its direct materials spending.

"We have pretty experienced people spending all their time processing transactions and expediting parts, instead of doing what they ought to be doing which is managing suppliers, managing our spend and negotiating," said Nathan Bretscher, Plasti-Line's director of process improvement.

The company has a two-pronged strategy to change all that.

The aforementioned automation effort is based on SupplyWorks Inc.'s Max supplier management software. At the same time, the company will conduct reverse auctions through FreeMarkets Inc. to negotiate annual contracts with suppliers on the most favorable terms, which will contribute to the spending reductions.

Plasti-Line spends 80% of its $35 million in direct procurement with a group of 125 suppliers. P.O.'s are generated from the company's legacy AS/400-based enterprise resource planning system. Then they're printed, faxed and sent off to suppliers. The company's 11 buyers then have to place follow-up phone calls with suppliers to go over details. No more than 50% of the company's purchasing is executed through negotiated contracts; the rest occurs at the discretion of its buyers, who are dispersed through four manufacturing facilities.

The company's internal estimates find that the process costs it about $40 to process an average purchase order.

Once it implements a hosted version of SupplyWorks in the late spring, Plasti-Line will tie its ERP system to the Max software and create two-way links over the Internet with its supplier base. Software interfaces will be developed by Plasti-Line's internal IT organization.

Plasti-Line will be able to communicate its materials requirements to suppliers, automate the purchase order process, receive automated acknowledgments from its suppliers and manage individual orders on an exception basis, rather than manually analyzing each and every order.

Today, it's not uncommon for buyers to have to intervene in accounts payable disputes; such disputes could arise from something as simple as a typographical error on the price in a purchase order. "The number of disputes should plummet, which is another big drag on the purchasing people," Bretscher said.

This more automated process will mean that at least a quarter of the company's purchase orders will cost virtually nothing to process, Bretscher said.

While he wouldn't disclose the price Plasti-Line is paying for SupplyWorks, Bretscher said the company expects about a six-month payback on its investment, when the increased productivity of its buyers is factored into the equation along with the projected $3.5 million reduction in direct spending. Plasti-Line does not intend to reduce its number of buyers, but rather to refocus their time significantly.

Increasingly, the purchases they manage will occur based on terms and conditions that Plasti-Line is able to strike with vendors through the FreeMarkets reverse auction process.

In many companies, IT spending has become tight as a drum. Consequently, vendors are ill-advised to pitch products that mandate sweeping internal process overhauls that will cause the overall cost of a project to escalate beyond the pure software cost.

Yet in Plasti-Line's case, one big vendor it was considering presented precisely that choice, and so was quickly rejected, Bretscher said.

Specifically, Plasti-Line considered i2 Technologies Inc., a dominant supply chain software vendor, at the same time it was looking at SupplyWorks.

"I2 wanted to talk about planning, scheduling and product development," Bretscher said. "Our product development cycle is one month long and we don't do it with suppliers, we do it ourselves. They just wouldn't listen and understand the business."

He added: "They were very arrogant."

The company preferred the more focused approach of SupplyWorks, whose vision for how Plasti-Line could update its processes was more closely aligned. By focusing narrowly on communicating and transacting with suppliers through its system, SupplyWorks won the Plasti-Line business.

Bretscher believes the system will be used to develop the tightest possible ties with Plasti-Line's top ten suppliers, who will get visibility into his company's material forecasts, due dates and so on, while the remaining

suppliers will benefit from the more automated purchasing process.

We'll check back in with Plasti-Line once the system has been deployed to see if things go according to plan.

Home | Breaking News | E-Business | Application Development

Security | Open Source | All Stories

Mobilize Your Business

Media Kit | Feedback